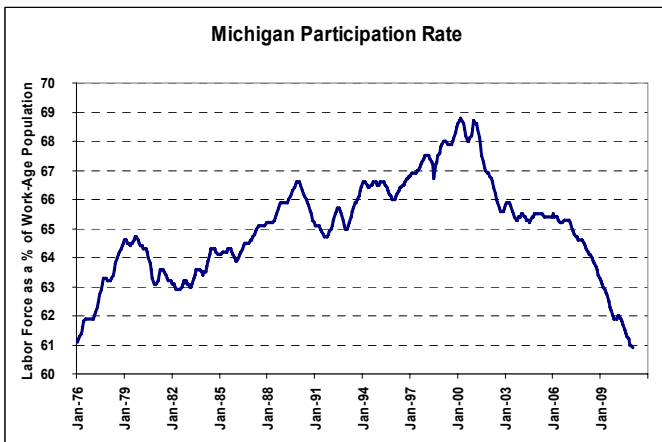
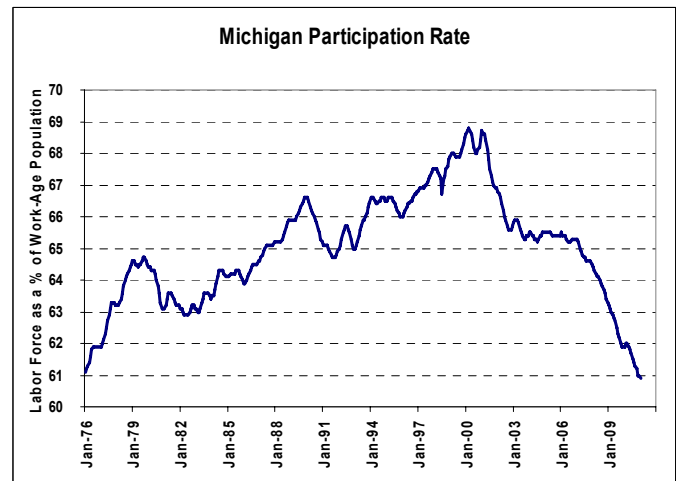


Labor Market Joins Recovery

Comerica’s Michigan Economic Activity Index has been signaling for some time that the state’s economy is recovering. Revised labor market data now confirm that Michigan is expanding quite briskly. Indeed, Michigan has had the biggest drop among the states in its unemployment rate, and its nonfarm payroll growth has outpaced the nation. With its manufacturing sector leading the way, Michigan is repeating the historical pattern of having a stronger recovery than the nation after having a much worse downturn.

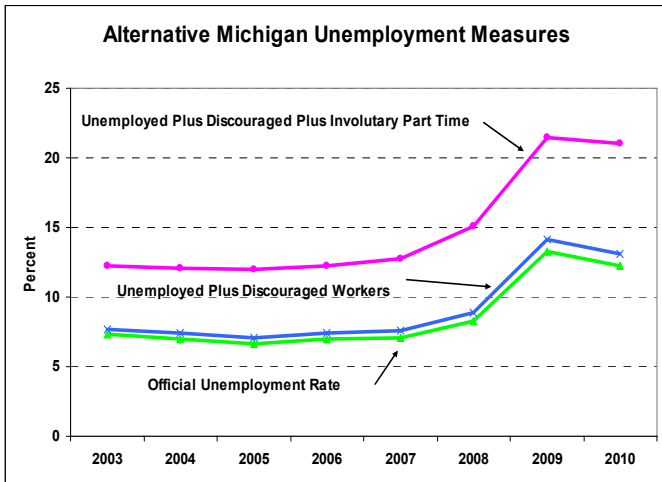
Michigan’s unemployment rate fell to 10.4 percent in February. That is down 3.1 percentage points in the past 12 months, when the national rate fell 0.8 percentage points. The next biggest decline among the states was 2.2 percentage points in Illinois. Michigan’s unemployment rate in February was 1.5 percentage points above the national rate, the narrowest differential since June 2004 and down from a cyclical wide 4.6 percentage points in July 2009. In the process, Michigan has gone from having the second highest unemployment rate (Nevada had the highest) to now having the fifth highest unemployment rate.

documents, Michigan’s participation rate fell to 61 percent early this year, the lowest in 35 years. The persistent decline in participation over the past 10 years mainly reflects two factors. First, Michigan’s population is aging and thus there are more mature people retiring than there are younger people reaching work age and entering the labor force. Second, numerous unemployed people have become discouraged by the state’s high unemployment rate and have stopped looking for work on the belief that further search would be futile.



Since August 2009 when Michigan’s unemployment rate hit a peak of 14.1 percent, the state’s participation rate fell by 1.4 percentage points to 60.9 percent. If instead, the participation rate had held steady, the state’s unemployment rate would have fallen only 1.3 percentage points. In other words, 2.1 percentage points of the observed decline in the unemployment rate was attributable to people dropping out of the labor force. But the national participation rate also fell quite sharply, dropping 1.2 percentage points over the past 18 months. If counter to fact, it had stayed level since August 2009, the national unemployment rate would have risen 0.9 percentage points instead of having fallen by 0.8 percentage points. Nationally, job growth has not been keeping up with population growth. Even so, the national unemployment rate has been falling because so many people have dropped out of the labor force.

The dramatic improvement in Michigan’s unemployment rate is only partially attributable to renewed job growth. Much of it is due to a steep fall in the participation rate, the portion of the population above the age of 15 that is either employed or looking for work. As the chart above



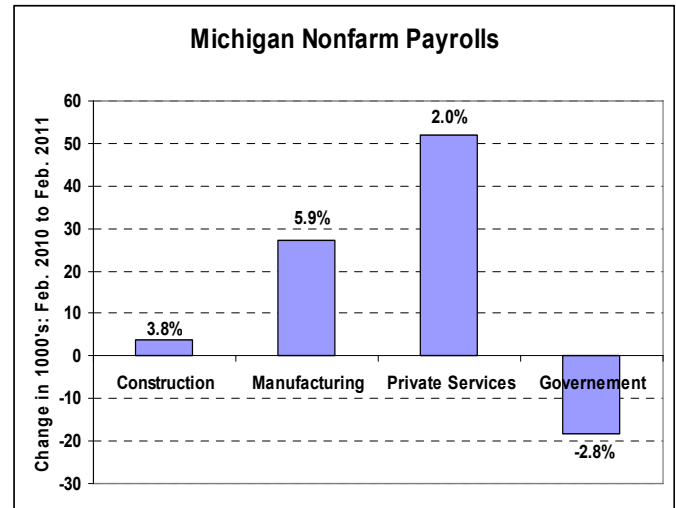
The chart above shows two broader measures of Michigan unemployment in addition to the so called official unemployment rate. The next higher measure (shown in blue) counts as unemployed discouraged workers who have stopped looking for a job along with those who are actively seeking work. The broadest measure of unemployment that the Labor Department tracks (shown in red) also counts as unemployed those who are working part time but would prefer to be working full time.

The key takeaway is that these three measures tend to move together over time. It is also true that the three measures show similar relative performance compared to other states. For example, Michigan on an annual average basis had the second highest official unemployment rate in 2010, the second highest rate that also includes discouraged workers, and the third highest rate for the measure that includes involuntary part time workers. In other words, the recent improvement in Michigan's unemployment rate is genuine and not a quirk related to a particular measure of labor market slack.

The conclusion that Michigan is seeing a significant improvement in its labor markets is reinforced by recent trends in nonfarm payrolls. Over the 12 months to February, nonfarm payrolls rose 1.7 percent in the state. That compares to a national increase of only 1.0 percent.

The industrial composition of payroll growth is displayed in the chart below. The chart shows the 12-month change in thousands of workers in key segments and also displays the corresponding percentage

changes. The first key point is that there has been a broad-based increase in private payrolls at the same time that government payrolls have dropped significantly. Overall, private payrolls rose 83,200, or 2.7 percent, in the most recent 12 months, while government jobs fell by 18,400, or 2.8 percent.



Within the private sector, service jobs increased by 52,000, manufacturing by 27,300, and construction by 3,800. In percentage terms, however, manufacturing enjoyed by far the biggest increase, rising by 5.9 percent, while construction increased 3.8 percent and private services rose 2.0 percent. This pattern is broadly consistent with the way past business cycles have played out in Michigan. The state has a large, cyclically-sensitive manufacturing sector that suffers during downturns but tends to lead the state economy during subsequent recoveries.

The auto and auto parts sector has always played a key role in this dynamic, but that sector has shrunk dramatically. As recently as 2003, auto and auto parts manufacturing jobs accounted for 36 percent of total manufacturing jobs in Michigan and 6 percent of all jobs. Now the auto sector accounts for only 26 percent of manufacturing jobs and 3 percent of all nonfarm payrolls. But manufacturing jobs in other sectors also tend to be highly cyclically sensitive. That is apparent in the fact that while auto and auto parts payrolls in Michigan have increased 7.1 percent in the 12 months to February, the number of workers in other manufacturing sectors increased 5.5 percent.

The key conclusion is that Michigan is currently experiencing a stronger recovery in its labor markets

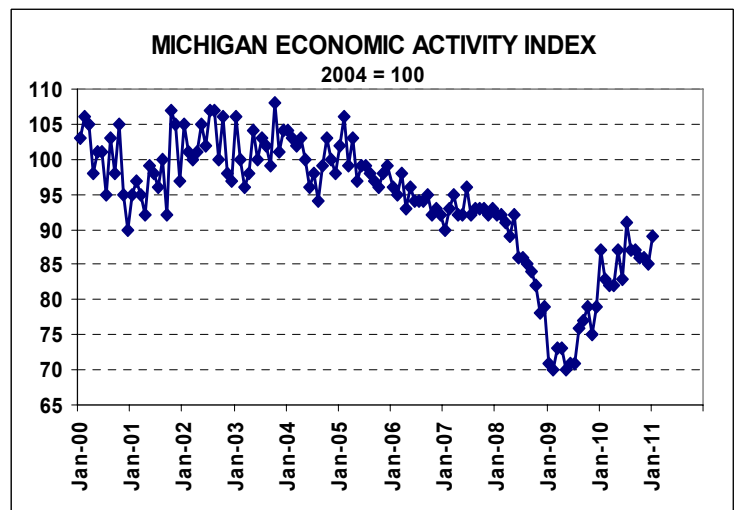
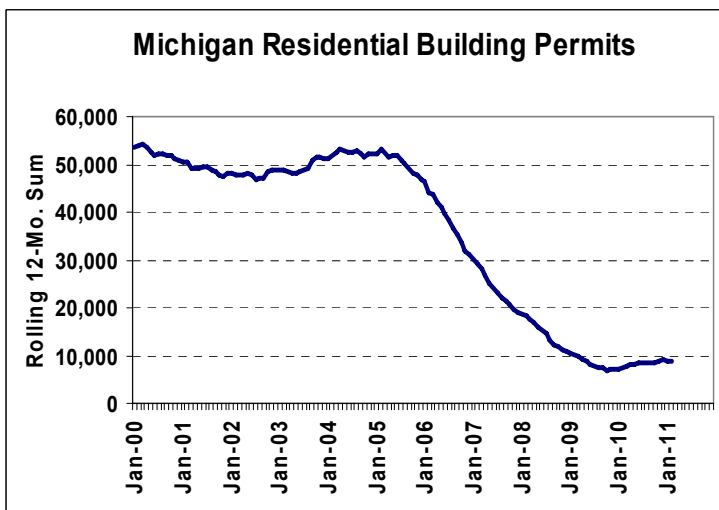
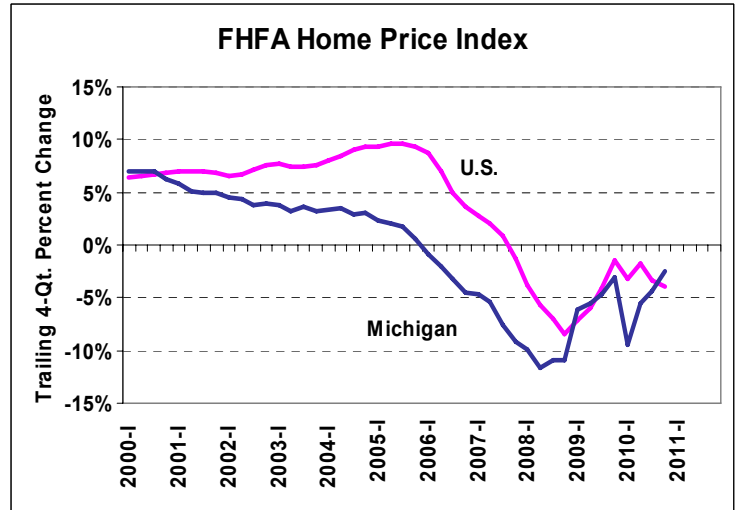
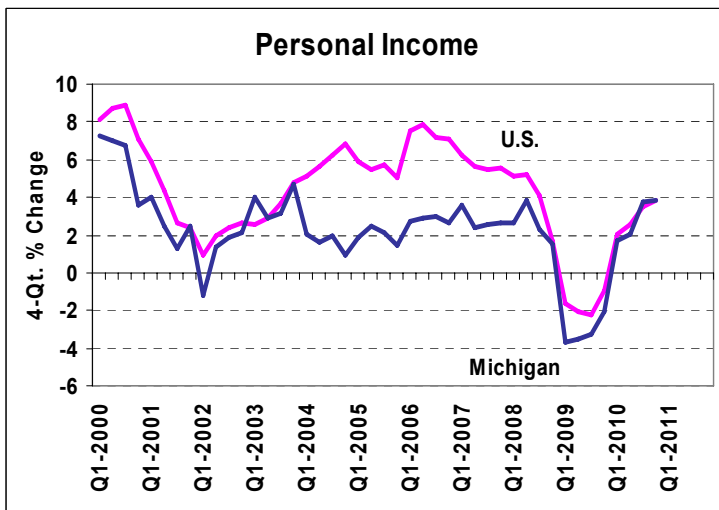
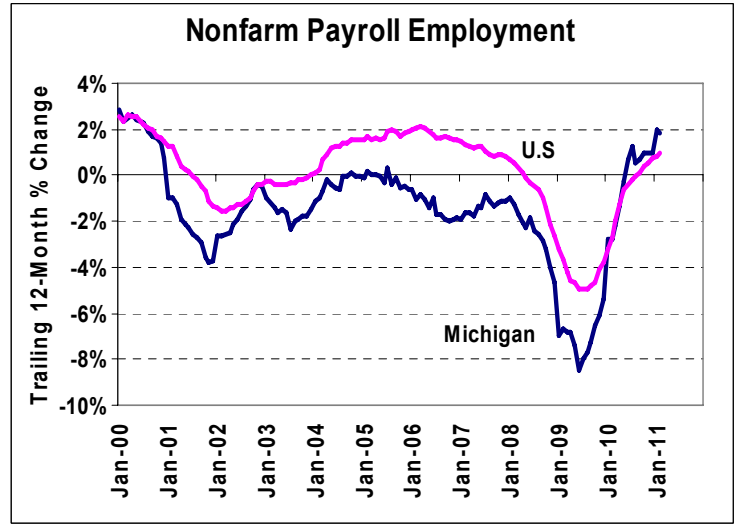
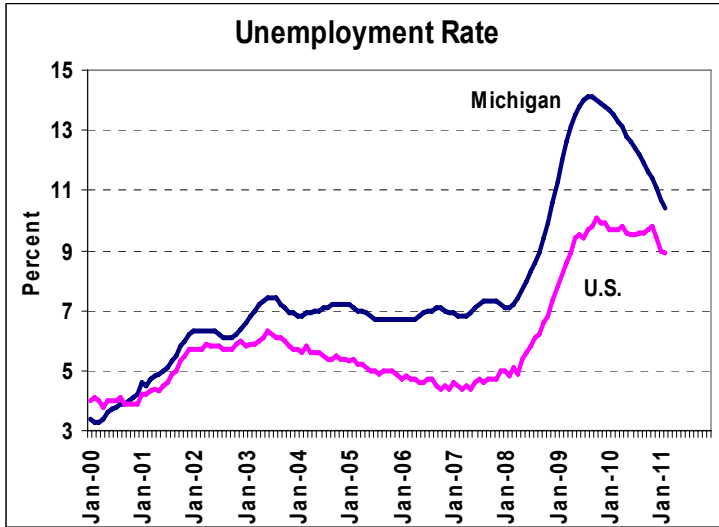
than the nation. That is largely because the state has a disproportionately large manufacturing sector that is highly cyclically sensitive. To be sure, this is no time for complacency. The hard truth is that this period of outperformance in Michigan will prove to be short-lived. Looking beyond 2011, job growth in Michigan will tend to lag reflecting sluggish population growth if not further outright declines. The competition to retain and attract businesses will continue to be intense. To assure a prosperous future, the state would be well advised to do everything it can to create a more business friendly environment.

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